FILED
JAN 7 1953

IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1952.

No. 477

L. A. GOODMAN MANUFACTURING CO., a corporation,
Petitioner,
vs.
GUSTAVE W. BORKLAND,
Respondent.

On Petition for Writ of Certiorari to the Appellate Court of Illinois, First District.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

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The Scheffer Press, Inc.—ANdover 3-6850

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STATEMENT OF THE CASE.

Respondent (licensor) brought suit against petitioner in the Superior Court of Cook County, Illinois, for royalties due under a patent license agreement, and petitioner attempted to defend on the ground, among others, that the subject matter of one of the licensed patents had been in public use for more than one year prior to the application therefor, whereas respondent's application knowingly stated it had not. Petitioner also sought by its amended counterclaim to recover on that ground royalties already paid in to respondent under the license agreement. The trial court dismissed the amended counterclaim and entered judgment for respondent. Petitioner appealed from that judgment and the Appellate Court of Illinois for the First District affirmed.

SUMMARY OF ARGUMENT.

Petitioner, being an admitted licensee under a patent license agreement with respondent, is estopped to dispute the validity of any of the licensed patents, and this rule of estoppel prevents petitioner from suing respondent to recover back royalties already paid in to respondent under this agreement. Despite the particular manner in which petitioner has phrased its amended counterclaim and despite the fact that the amended counterclaim states the legal conclusion that respondent fraudulently induced the issuance of one of the patents, the essential ground asserted therein for the recovery of royalties is that one of the licensed patents is invalid.

ARGUMENT.

I.

Because petitioner is an admitted licensee of certain patents under a license agreement, petitioner is estopped from disputing the validity of those patents, and is estopped from suing to recover back royalties paid in thereunder on the grounds of the alleged invalidity of one of such patents. Petitioner does not bring himself within the exception to the general estoppel rule which applies only where violations of anti-trust statutes are involved.

Petitioner's counsel have striven to make it appear that this is an unusual case involving acts of fraud and presenting a novel question of law. We submit that that just simply is not so. This is a mine-run action for royalties under a patent license agreement where the licensee (petitioner) is attempting to get out of its bargain by involving the licensor in extended litigation over the validity of one of the several patents involved. It is a typical case for application of the general rule estopping a licensee from questioning the validity of the licensed patents, as the Superior Court of Cook County, Illinois, and the Appellate Court of Illinois for the First District very properly held.

Petitioner purports to trace out a trend in the recent cases which have greatly expanded the exceptions to the estoppel rule. But this Court will recall that the exception recognized in *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173, *Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394, and *MacGregor* v. *Westinghouse Co.*, 329 U.S. 402, were very definitely limited by this Court in the recent case of *Automatic Radio Co.* v. *Hazeltine*,

339 U.S. 327, where this court reaffirmed and followed the traditional rule, stating at page 836:

> "Finally, it is contended that notwithstanding the licensing agreement, petitioner-licensee may contest the validity of the patents it is charged with using. The general rule is that the licensee under a patent license agreement may not challenge the validity of the licensed patent in a suit for royalties due under the contract. *United States* v. *Harvey Steel Co.*, 196 U. S. 310. The general principle of the invalidity of price-fixing agreements may be invoked by the licensee of what purport to be valid patents to show in a suit for royalties that the patents are invalid. *Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394; *MacGregor* v. *Westinghouse Elec. & Mfg. Co.*, 329 U. S. 402. There is no showing that the licensing agreement here or the practices under it were a misuse of patents or contrary to public policy. This limited license for 'home' use production contains neither an express nor implied agreement to refrain from production for 'commercial' or any other use as part consideration for the license grant. The *Katzinger* and *MacGregor* cases are inapplicable. The general rule applies, and petitioner may not, in this suit, challenge the validity of the licensed patents."

It would serve no purpose to discuss the countless cases on this general rule of estoppel which antedated the *Automatic Radio Co.* case because the opinion in that case represents the latest word on the subject by the Supreme Court and the reaffirmance of the rule quoted above is clear and unequivocal.

The rationale of the rule is succinctly stated in *Eastern States Petroleum Co.* v. *Universal Oil Products Co.*, 2 Atl. (2d) 138, where the issues presented were remarkably similar to those involved in the instant case. That court said at page 141:

> "Where a licensee takes a license to work a patent for which letters patent have been duly issued, receiving the benefits of the agreement including immunity from molestation by the owner on the ground of infringement, it is highly inequitable that he should be permitted to escape the obligation to pay royalties which he stipulated he would pay in consideration for the granted immunity. It was so held in the leading case of *Kinsman, et al.* v. *Parkhurst,* 18 How. 289, 15 L.Ed. 385. The doctrine of that case has been uniformly recognized and accepted without a single dissent, so far as my investigations show in subsequent cases in the Federal and State jurisdictions in this Country and in England."

This decision was approved by the Supreme Court of Delaware in *Eastern States Petroleum Co.* v. *Universal Oil Products Co.,* 8 Atl. (2d) 80, 23 Del. Ch. 358.

In accord are several very recent cases: *Bucky* v. *Sebo,* 102 N.Y.S. (2d) 522; *Hope Basket Co.* v. *Product Advancement Corp.,* 89 F. Supp. 116, 125, 187 F. (2d) 1008, 1012; and *Lanova Corporation* v. *Atlas Imperial Engine Co.,* 55 Atl. (2d) 272, where the leading cases on the subject were discussed at length and the Court concluded at page 275 that:

> "• • • the estoppel principle still retains its full vigor where no statute or broad public interest conflicts therewith."

II.

Despite the manner in which counterplaintiff's allegations are framed, the essential ground asserted in the Amended Counterclaim for the recovery of royalties paid in is that one of the licensed patents is invalid.

Petitioner makes much of the fact that it uses the term "fraudulently induced" in charging respondent with wrongdoing. However, petitioner can not alter the nature

of its charge by the use of a descriptive adjective. The actual fact charged is that one of the several licensed patents had been in public use for more than a year prior to the date of the application, whereas respondent's application knowingly stated that it had not. We contend that this is an ordinary case of licensee trying to dispute the validity of one of the patents, even though petitioner phrased its allegations in such a way as to try and get out from under the general estoppel rule.

In several reported cases licensees have attempted to couch their charges of wrongdoing in language similar to that employed by petitioner here, and the courts have uniformly held that such allegations amounted to charging that the patents were invalid, and therefore came within the estoppel rule.

Thus in *Bucky* v. *Sebo*, 102 N.Y.S. (2d) 522, a licensee was sued by the licensor for royalties, and in sustaining a motion to strike portions of the defendant-licensee's answer, the court said at page 523:

> "The first five and the seventh defenses plead the invalidity of the patents for various causes—lack of invention, prior user, fraud in seeking the patent and the like. It is not denied that the patents were issued but the claim is that they are void.
>
> "[1] It has long been axiomatic that a licensee cannot, in an action for payments due under the lease, challenge the validity of that license. * * *"

See also: *Lanova Corporation* v. *Atlas Imperial Engine Co.*, 55 Atl. (2d) 272; and *Eastern States Petroleum Co.* v. *Universal Oil Products Co.*, 2 Atl. (2d) 138; 8 Atl. (2d) 80, 23 Del. Ch. 358.

III.

Petitioner's Cases Distinguished.

Not one of the cases cited by petitioner is analogous to the instant case. Petitioner's principal reliance is placed upon the *Hartford-Empire Co.* cases: *Hazel-Atlas Co.* v. *Hartford-Empire Co.*, 322 U. S. 238; *Shawkee Mfg. Co.* v. *Hartford-Empire Co.*, 322 U.S. 271, and *Hartford-Empire Co.* v. *Shawkee Mfg. Co., et al.*, 67 F. Supp. 26, and 163 F. (2d) 474.

But those were cases where it was sought to set aside a judgment for after-discovered fraud *practiced on the Court* and to annul license agreements entered into under the compulsion of fraudulently obtained decrees. At their broadest, these opinions go no further than to hold that *in a suit to enforce a patent by an infringement action,* it can be shown that the patent was obtained by fraud and is invalid. That is neither a new doctrine nor one that relates to the problem involved here.

None of the other cases cited in the petition are analogous. Apparently they are referred to in the hope of extracting from them some general doctrine which may be used to create a new exception to the existing rule. We do not believe that it would serve any useful purpose to discuss them in detail here.

CONCLUSION.

Petitioner's attorney has taken the liberty in his brief (p. 22) of stating to this Court that there is now pending in the United States District Court for the Northern District of Illinois, Eastern Division, an action between respondent and a third party to contest the validity of one of the patents. We think this remark is wholly improper

and that petitioner had no right to refer to matters of fact outside the record. But since it has been mentioned, we call this Court's attention to the fact that petitioner is amply protected in the event the patent should be declared invalid because paragraph 8 of the license agreement (R. 7) gives petitioner the right to terminate the agreement at its option in the event all claims essential to commercial operation by petitioner in licensed letters patent shall be declared invalid.

Reduced to its essentials the argument of petitioner's counsel is that there ought to be a broad exception to the traditional estoppel rule, which would apply whenever a patent licensee resists a suit for royalties on the ground that a patent is invalid because the application therefor contained knowing false statements, or tries under that theory to recover royalties already paid in. But as the Appellate Court of Illinois aptly remarked in its opinion (Appendix to Petition and Brief of Petitioner) "an extension of the exception to the rule of estoppel to the fraud charged here would render every license agreement subject to attack in every case where priority of the invention might be questioned."

It is respectfully prayed that the petition for writ of certiorari be denied.

Respectfully submitted,

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